

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268 0001

VALASSIS NSA

Docket No. MC2012-14

Docket No. R2012-8

RESPONSE OF THE McCLATCHY COMPANY TO NOTICE OF INQUIRY NO. 1  
June 27, 2012

Located in Raleigh, North Carolina, The News and Observer Publishing Company, ("The News & Observer") is the second largest newspaper in the Carolinas. In addition to our daily newspaper, we publish ten community papers and operate 19 websites. Together, these media outlets reach more than 1 million readers weekly.

The News & Observer submits this declaration in support of the Newspaper Association of America's ("NAA") Response to Notice of Inquiry No. 1.

The News & Observer wants to formally reiterate our opposition to the proposed Negotiated Service Agreement ("NSA") between the United States Postal Service ("USPS") and Valassis Direct Mail, Inc. ("Valassis") and further illustrate the irreparable harm the agreement could have on The News & Observer, the USPS and the communities we collectively serve.

Valassis is one of The News & Observer's largest competitors for free standing inserts. Valassis also serves as an advertising agency that places insertion orders with The News & Observer for several of our larger customers. As a result, Valassis already has knowledge of our rates, and the granting of any preferential rate structure to them would further unlevel the playing field for the preprinted insert business. The proposed discounted rate to Valassis could upend the competitive landscape in our market in favor of Valassis, potentially dealing The

News & Observer's operations a serious financial blow, thus negatively impacting our ability to serve our communities with high quality news and information.

#### Response to Questions

1. For fiscal year 2010, we estimate that advertising inserts for durable and semi-durable goods from national retailers represented 21% of The News & Observer's total advertising revenues (including ROP, classified and digital advertising), 26% of our total print advertising revenue and 59% of our total preprint advertising revenue.
2. For fiscal year 2011, we estimate that advertising inserts for durable and semi-durable goods from national retailers represented 21% of The News & Observer's total advertising revenues (including ROP, classified and digital advertising), 27% of our total print advertising revenue and 58% of our total preprint advertising revenue.
3. The News & Observer distributes Total Market Coverage ("TMC") packages to non-subscribers through the mail and carrier delivery midweek. While TMCs may contain advertising inserts from national retailers and for durable and semi-durable goods, most of these types of midweek advertising inserts represent local grocery stores, fast food outlets and other retailers with local operations. Most of the ad inserts from national retailers and for durable and semi-durable goods are distributed within The News & Observer's Sunday newspaper editions or through our carrier-delivered community newspapers to non-subscribers. Our Sunday paper is very important to The News & Observer's operations. On average, our Sunday papers provide 44% of The News & Observer's advertising revenues. The Sunday paper creates a significant portion of our profits in addition to being highly valued by our readers and advertisers. The proposed NSA with Valassis, however,

could lure many of these durable and semi-durable goods advertisers from our Sunday newspapers to Valassis. We believe this would diminish a significant portion of The News & Observer's advertising revenues and, as a result, would cause us to cut our costs in response. These reductions would include the possibility of scaling back our news coverage and potentially pulling our midweek TMC package from the mail to obtain savings necessary to remain competitive.

4. For fiscal year 2010, The News & Observer paid the USPS \$2.28 million to deliver our TMC products. The News & Observer is unable to provide the Postal Regulatory Commission cumulative weight or individual pieces mailed since The News & Observer's systems do not track these measurements.
5. For fiscal years 2011, The News & Observer paid the USPS \$2.33 million to mail our TMC products.
6. The News & Observer believes that the USPS could lose a significant portion of the approximately \$2.4 million The News & Observer expects to spend on postage in the next year if the Valassis NSA is approved.

A handwritten signature in black ink, appearing to read 'Orage Quarles, III', with a stylized flourish at the end.

Orage Quarles, III  
President and Publisher  
The News & Observer Publishing Company